

## Committee report

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| Committee | <b>FULL COUNCIL</b>                            |
| Date      | <b>19 SEPTEMBER 2012</b>                       |
| Title     | <b>LOCALISATION OF COUNCIL TAX SUPPORT</b>     |
| Report of | <b>LEADER AND CABINET MEMBER FOR RESOURCES</b> |

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### EXECUTIVE SUMMARY

1. The Government is proposing that from 1 April 2013 the current national Council Tax Benefit Scheme is replaced by local council tax support schemes, determined at a local authority level. They also intend to reduce the overall level of funding made available to local authorities by some 10%. In addition, there are proposals to give greater local flexibility in determining what proportion of council tax is paid by second home owners and in relation to empty properties.
2. This report sets out the implications of the proposed changes, along with the options and process for developing and implementing a local scheme. The overall arrangements for Council Tax Benefit and the proposed changes are very complex and a glossary of the key terms and definitions is set out in Appendix 7 to this report.

### OUTCOMES

3. To understand the overall impact of the Government's proposals for localising Council Tax Support and reforming Council Tax arrangements, and to agree a preferred option for a local scheme as the basis for consultation.

### BACKGROUND

4. The Department for Communities & Local Government published a consultation document on localising support for council tax in England on 2 August 2011. A further statement of intent and funding arrangements were published on 17 May 2012. The Local Government Finance Bill, which makes the necessary provisions for the new Local Council Tax Support Scheme and the Business Rates Retention Scheme, is currently going through Parliament.
5. Currently council tax benefit is determined and set nationally, but administered locally. The money spent on these benefits is met by funding provided by the Government. The proposal is to replace Council Tax Benefit with what will be known as Council Tax Support and in doing so to transfer both control and

delivery to local authorities through local schemes with effect from 1 April 2013.

6. The Government has determined that there will be no change in the entitlement made available for claimants of pensionable age. Instead the thrust is to reduce support and provide initiatives to incentivise people of working age to get back to work. Very detailed draft regulations for consultation were published by the Government on 16 July 2012 on the proposed default scheme and the necessary elements of local schemes.
7. Any local scheme has to be agreed by Full Council by 31 January 2013. If a local scheme is not agreed by 31 January 2013 then the Government will impose a default scheme. The default scheme is based on the existing council tax benefit scheme and therefore would mean giving council tax support at existing levels with no reductions. In such circumstances the reduction in the Government funding of some 10% would have to be met by both the Council and the Office of the Hampshire & Isle of Wight Police & Crime Commissioner (replacing the Hampshire Police Authority) in proportion to their percentage of the council tax levels.
8. The Council responded to the Government's consultation on their proposals for localising support for council tax. Following the further statement of intent (which included details of the proposed funding arrangements) on 17 May 2012, the Council submitted a response on 10 July 2012 which set out a number of concerns about the potential implications of the changes and the timescales associated with them. A copy of the Council's response is included in Appendix 8 to this report. The conclusions (and recommendations) of the Council's submission were:
  - Local Council Tax Support Grant be separate from the Business Rates Retention Scheme and grant funding be uplifted each year by growth or reduction in claimants and average council tax increases.
  - The initial distribution of the grant takes into account the proportion of pensioners.
  - That due to the very short timescale for implementation that either the proposed implementation date be put back to 1 April 2014 or if implementation proceeds on 1 April 2013 that a phased approach be used with 5% reduction in year 1.
9. It is understood that many other local authorities have raised similar concerns with the Government and made similar suggestions for adjustment to the proposed scheme. At the time of writing this report, no response had been received to this submission, nor was there any indication from the Government that any such changes to the scheme were under active consideration. The Council Leader has shared the Council's submission with the local Member of Parliament and asked that representations be made to the Government on behalf of the Isle of Wight.

## FINANCIAL FRAMEWORK

10. The final framework and regulations have still to be finalised by the Government but it is clear that there will be major financial implications both to

claimants in the support they receive and to the Council and Preceptors in meeting any potential gap in funding.

11. The Council is the Billing Authority for the Isle of Wight and includes in the council tax bills it sends out the element of council tax related to its council tax requirement as well as the council tax requirement for the Hampshire Police Authority precept (to be replaced – see paragraph 7 above) and the town and parish council precepts. The Hampshire Police Authority is classified as a Major Preceptor and the town and parish councils as Local Precepting Authorities.
12. The actual financial impact on the Council's budget will depend upon the extent to which the Council seeks to recover the loss in Government funding by reducing the Council Tax Support it provides as part of the local scheme as it is finally agreed and implemented, following consultation.
13. In the national consultation on funding arrangements issued by the Government on 17 May 2012 the overall proposed framework was set out. The key elements of the framework are:
  - a) The Government will pay a grant for 2013/14 equal to 90% of projected subsidised benefit expenditure. For England in total the 90% is estimated by the Government at £3,697m.
  - b) The consultation paper set out some indicative figures based on 2010/11 funding figures, which for the Council indicated a proposed allocation of £13.1m out of a total for England of £4,189m (some 0.3127% (rounded)).
  - c) The new Local Council Tax Support grant will be distributed to Council Tax Billing Authority areas based on their shares of the total England 2011/12 subsidised benefit expenditure. Based on the 2010/11 figures, the Isle of Wight's proportion would be  $0.3127\% \times £3,697m = £11.560m$ . This has now been uprated to 2011/12 figures to be £11.920m.
  - d) This grant funding will be distributed to billing authorities and major preceptors on the basis of their proportion of the total average Band D council tax. For the Council its proportion of the total council tax in 2012/13 is 87.87%, Hampshire Police Authority 9.96% and town and parish councils 2.17%.
  - e) For the Isle of Wight the major preceptor is currently the Hampshire Police Authority (to be replaced) and their successor will get their proportion of the grant paid directly to them.
  - f) The Council will receive its grant funding directly along with the element related to local preceptors (town and parish councils). The indicative figure in relation to town and parish councils is £260k.

- g) Currently council tax benefit is counted as council spend and the subsidy received is counted as income. For accounting purposes, benefit paid towards council tax bills is treated as council tax income, as if it was being paid by households. The new Council Tax Support Grant will be included within the Council's and Hampshire Police Authority's income and thus will be available to reduce the council tax requirement, however the council tax support given will not count as spend or council tax income – but will be included in the Collection Fund and treated as a reduction in the council tax base.
- h) The Collection Fund includes all the transactions of the Council as billing authority in relation to Council Tax and National Non-Domestic Rates and the distribution of the precepts to the Isle of Wight Council, the Hampshire Police Authority and town and parish councils.
- i) This means that if the new grant funding in total were £11.920m (Council, Police and town and parish councils) and the support to claimants was reduced to match this then the council tax calculation would be as follows:

|                | COUNCIL TAX REQUIREMENT          | COUNCIL TAX BASE                                      | COUNCIL TAX LEVEL                                   |
|----------------|----------------------------------|---|---|
| <b>2012/13</b> |                                  |   |   |
| - Council      | £71,818,643                      | <b>55,682</b>   | Council Tax Requirement divided by Council Tax Base |
| - Police       | £8,143,492                       | Equivalent Number Of Band 'D' properties              |   |
| - Town& PC     | <u>£1,769,467</u>                | Council Tax Benefit Counts as council tax income      | Average Band D £1,467.83                            |
|                | <u>£81,731,602</u>               |   |   |
| <b>2013/14</b> |                                  |   |   |
|                | £81,731,602                      | Reduction in CT base for support given £11.920m       | Average Band D £1,467.83                            |
|                | <u>-£11,660,000</u>              | Less grant for Town & Parish Councils £260K= £11.660m |   |
|                | <u>£70,071,602</u>               |   |   |
|                | Less indicative CT Support Grant | Divided by £1,467.83 =                                |   |
|                | Council £10.470                  | 55,682  |   |
|                | Police £1.190m                   | <u>-7,943</u>   |   |
|                | <u>£11.660m</u>                  | <u>47,739</u>   |   |
|                | T&PC £0.260m                     |   |   |
|                | <u>£11.920m</u>                  |   |   |

Therefore if the grant funding from Government is used to reduce the Council Tax requirement and the reduction in grant is matched by a corresponding reduction in the council tax support given to claimants then the council tax level will be unaffected.

- j) The grant will not be ring fenced and will be included within the business rates retention scheme rather than being a separate grant. The concern here is that under the proposed business rates retention scheme once the baseline funding level is set for 2013/14 it will only be changed for increases in the Retail Price Index with no provision for growth included. This means that there will be no funding for future increases in the number or cost of pensioner or working age claimants, leaving any additional costs in the future to be met through local resources.
  - k) The final grant funding figure will be based on the Council's share of the 2011/12 Subsidised Council Tax Benefit spend and in the context of an updated forecast of the total 2013/14 Council Tax Benefit spend for England. The total Council Tax Benefit subsidy for the Isle of Wight Council in 2011/12 was £13.5m. The Government have, on 30 August 2012, updated the indicative figures based on 2011/12 and on this basis the total grant for the Island would be £11.910m. This is still subject to change and at this stage a grant figure of £12m continues to be assumed.
14. Apart from the potential financial impact on the Council, the Hampshire Police Authority – who are a major preceptor – will also be affected. Any shortfall in recovering the reduction in grant funding by reducing council tax support to claimants and / or losses on collection will be shared with them in proportion to their precept level. In 2012/13 the police precept was £146.25p (9.96% of the total including town and parish councils).
15. Because of this there is a requirement to consult with the Police Authority on the local scheme. Their initial views were sought and three key points were raised:
- There is concern over the timescale as there is a requirement for the new Police and Crime Commissioner (PCC) (elected on 15 November 2012) to submit their proposed precept by 21 December 2012. The final decision on our local scheme would not be made until 16 January 2013.
  - There is a potential overall impact of over £1m on the Police Authority in relation to the local schemes that may be introduced by the different billing authorities within the area of the Hampshire Police Authority. The Police Authority has indicated that they would wish to see the new schemes designed in such a way that they will close the 10% funding gap directly or by using other methods such as changing discounts under the new council tax reforms.
  - Individual billing authorities are better placed to assess the options for scheme design and to model their impact on the profile of vulnerable groups in each locality. In terms of overall principles for a design, the Police Authority has indicated that they would be keen to see schemes across their area that were similar in design in order to avoid confusion amongst residents and also to ensure that

such schemes were perceived to be fair and consistent and benefitting those groups for whom the original council tax benefit scheme was intended.

Given that the Police & Crime Commissioner will be elected on 15 November 2012, which is before the Council's consultation period ends on 30 November 2012, it is proposed to seek his or her view on the proposed scheme prior to the conclusion of the consultation period.

16. However it will not be possible for the Council to come to a final decision on any scheme until after it has undertaken a full consultation exercise and a full Equality Impact Assessment. It therefore will not be possible to give a definitive position on the local scheme which is likely to be adopted, by 21 December 2012 (the date by when the PCC is required to submit the intended precept level). Nevertheless, it is hoped that the PCC can determine the precept level taking into account the proposed scheme as it stands at the time.
17. As part of the development of the proposals for a local scheme there has been extensive liaison with the Hampshire billing authorities as well as other local authorities beyond our two counties. The billing authorities in Hampshire are all district councils (with the exception of the unitaries in Southampton and Portsmouth) and their proportion of the Council Tax bill is relatively small with Hampshire County Council and police precepts making up the vast proportion of the bill (alongside those of the two unitaries in their respective areas). The budgetary impact on districts is, therefore, much more limited.
18. To date some 80 billing authorities across the country have already gone out to consultation. The options being considered include an overall reduction in eligibility to between 70% and 90%, removing second adult rebate, removing the discount on second homes, increasing non-dependant deductions, limiting the disregard for child benefit, changing the capital threshold, increasing the 20% taper for income taken into account for those working and limiting eligibility to a Band D or Band C Council Tax level.
19. Local preceptors (town and parish councils) are potentially affected but the Government issued a further consultation on 28 August 2012 on the calculation of the council tax base and funding for local precepting authorities (town and parish councils). It is proposed that for town and parish councils only the calculation of the council tax base will be undertaken excluding the council tax support given and that the grant received in respect of town and parish councils will be paid into the Collection Fund.
20. This will mean that in council tax terms, town and parish councils will be favourably treated in that they will receive 100% of their council tax precept regardless of any costs of council tax support and any non-collection or write-offs. The risks are therefore placed onto the billing authority – the Isle of Wight Council.

## ISSUES TO CONSIDER IN DEVELOPING A LOCAL SCHEME

21. The timescale involved in developing, consulting and implementing a local scheme is extremely short. The ability to redesign the existing benefit scheme for the first year to a wholly new local scheme to meet local circumstances is considerably limited. There are also constraints due to the extent of system software changes that can realistically be implemented in time and therefore there is a need to avoid too much complexity in new arrangements.
22. This means that the local scheme which is likely to be implemented for 2013/14 will inevitably be a transitional one with potentially greater change for 2014/15 and beyond. This also gives the opportunity to learn from the experience during 2013/14, to inform future changes.
23. The Government issued a paper in May 2012 entitled Localising Support for Council Tax – "taking work incentives into account". This emphasises the need for local authorities to take into account the incentive to work when designing their local schemes. This particularly relates to ensuring that when people work they get more overall income than when they are out of work. A key element in achieving this is ensuring that the proportion of earnings taken into account in reducing support when people do work is not so high as to become a disincentive to them working.
24. Securing employment for Islanders remains a major priority for the Council, so the opportunity to incentivise current recipients of Council Tax Benefit to enter employment is to be welcomed in overall terms. However the Council recognises that the Government reforms alone will not address this challenge, not least because there needs to be a supply of jobs to match such incentivisation. That is why the Council continues to pursue a number of initiatives to boost employment opportunities for Island residents and these are set out in Appendix 2 to the Medium Term Budget Review report being considered at the same meetings of the Cabinet and Council as this report. Furthermore, a recommendation is being made that the Council develops detailed proposals to tackle long-term worklessness with a view to implementing such plans as the council tax benefit reforms take effect along with other Government reforms to the welfare system.
25. In deciding on a preferred option for the local scheme there are essentially three interrelated issues to be considered:
  - The overall budget position and the consequent savings that would be required (or a rise in the level of council tax) in order to meet the identified funding gap caused by the loss of Government grant funding; and / or reducing the level of council tax support provided.
  - The potential impact on claimants and their ability to pay more towards their council tax as a result of the reduction in support they receive.

- The varying impacts on claimants with different circumstances as a result of changing different elements of how benefit entitlement is calculated.

### Overall Budget Level

26. In 2012/13 the total spend on council tax benefit is estimated to be £13.7m. The 2012/13 budget is based on all of this being covered by the grant funding. On the basis of what the consultation paper states on funding arrangements, it is likely that the total grant funding received by the Council and preceptors will be based on 2011/12 subsidised benefit which was some £13.5m. Our share of the England total would mean a grant of around £12m – a reduction of some £1.5m on 2011/12 levels, but extending to a reduction of £1.7m on 2012/13 levels.
27. The grant received will also not include any growth in claims or increased eligibility in 2013/14. On the basis of a projected 1.5% increase this would add another £200k to the gap making it £1.9m. This is before taking into account any assumptions on non-collection.
28. The Government has determined that under the new arrangements there can be no reduction for support to pensioners and therefore the projected impact would be as set out below:

|  | £'000        |
|--|--------------|
| Projected Support on basis of current CTB scheme | 13,900       |
| Less Pensioners                                  | <u>6,900</u> |
| Working Age Claimants                            | 7,000        |
| Projected Grant less pensioners ( £12m-£6.9m)    | <u>5,100</u> |
| Reduction for Working age claimants              | 1,900 (27%)  |

29. At this stage a range of options have been considered in dealing with this potential gap. This could include reducing the overall level of support by restricting the overall entitlement to less than 100% of the Council Tax liability. Three options are included 75%, 80% and 85%. One option is not to reduce the support and meet the £1.9m shortfall and another is to reduce the overall entitlement and change elements of the way support is calculated as well and to increase council tax income through removing the 10% discount on second homes and changing the exemption and discount periods and rates for empty properties.
30. The following table sets out the estimated impact of these options:



|   | <b>Option 1</b><br>Reduce support to 75% of Council Tax liability<br><br>£'000 | <b>Option 2</b><br>Reduce support to 80% of Council Tax liability<br><br>£'000 | <b>Option 3</b><br>Reduce support to 85% of Council Tax liability<br><br>£'000 | <b>Option 4</b><br>No reduction in Council Tax support<br><br>£'000 | <b>Option 5</b><br>Reduce support to 75%-85% plus change specific elements and change Council Tax discounts<br><br>£'000 |
|---|--|--|--|---|--|
| <b><u>Reduction in working age support</u></b><br>to match grant                        | 1,900  | 1,900  | 1,900  | 1,900   | 1,900  |
| Reduction in support to match option  | <u>1,750</u>   | <u>1,400</u>   | <u>1,050</u>   | <u>0</u>  | <b>see</b>   |
| Net Cost to be met  | <u>150</u>   | <u>500</u>   | <u>850</u>   | <u>1,900</u>  | <b>Paragraph 67</b>  |
| Total CT support given  | 12,150   | 12,500   | 12,850   | 13,900  |  |
| <b><u>Impact on Collection Fund</u></b>   |  |  |  |   |  |
| CT requirement in 2012/13 if total projected grant was applied to reduce total CT level | -12,000  | -12,000  | -12,000  | -12,000   |  |
| Reduction in CT Base<br>CT support divided by<br>Total CT £1467.83p                     | -8,278<br>households   | -8,516<br>households   | -8,754<br>households   | -9470<br>households   |  |
| Reduction in CT income from reduced base x £1467.83p                                    | -12,150  | -12,500  | -12,850  | -13,900   |  |
|   |  |  |  |   |  |
| Reduced Collection reduces CT base e.g.   | -245<br>30%<br>On extra  | -140<br>10%<br>on extra  | -105<br>10%  | 0   |  |
|   |  |  |  |   |  |
| Total Reduction in CT income less Total Grant   | -395   | -640   | -955   | -1,900  |  |
| IOWC share  | -355   | -575   | -858   | -1707   |  |
| Police Share  | -40  | -65  | -97  | -193  |  |

31. From the above it can be seen that as the reduction in Council Tax Support increases the higher the likely non-collection.
32. As Council Tax Support transactions go through the Collection Fund, any decision to set the support above the grant level will impact on the Hampshire Police Authority unless this is covered by an increase in the Council Tax Base through variations to the council tax arrangements for second homes and empty properties. The above figures do not allow for any council tax increases in 2013/14 which will have an additional impact.
33. Bearing in mind the overall financial position of the Council the option to not reduce support from the levels given under the current council tax benefit scheme is unlikely to be affordable, unless significant reductions in services take place. However an option to fully meet the impact of the loss of grant and changed funding arrangements by reducing support to working age claimants is not likely to be affordable to claimants either. Therefore an appropriate balance needs to be struck.
34. In addition to the changes to council tax support, the Government has also introduced in the Local Government Finance Bill proposed changes to the flexibility of local authorities to determine the discounts given to second home owners and the charges to apply to empty property. With these, there is the opportunity to increase the council tax base and thus help to offset some of the council tax support costs.
35. A summary of the proposals is set out in Appendix 6 to this report. The removal of the 10% discount on second homes could generate an additional £500k in total council tax income, subject to any changes in ownership or occupation that the removal of the 10% discount could possibly bring. If the discount / exempt periods on empty properties was changed this could generate a further increase in council tax income. This would increase the council tax base for both the Council and the preceptors. It is difficult to determine what the increased income might be as it is likely to deter people from leaving their properties empty. This would, however, potentially have an impact in increasing the level of the New Homes Bonus received, as empty properties lead to a reduction in this grant.
36. At this stage it suggested that £725k be used as an overall combined estimate of potential additional income from the possible changes in relation to both second homes and empty properties.
37. Taking into account the Council's housing strategy, shortage of housing on the Island, the need to bring properties back into use quickly and the financial position it is proposed that:
  - (a) The discount for properties which are second homes is reduced from 10% to zero from 1<sup>st</sup> April 2013.
  - (b) Class A exemption for properties which are empty and undergoing repair or major structural alteration is replaced with 75% discount for the 12 month period instead of 100%.

- (c) Class C exemption for properties which remain unoccupied and substantially unfurnished is replaced with 100% discount for 3 months from the date the property becomes substantially unoccupied and unfurnished, followed by zero discount thereafter. This compares with the current position which is 100% for 6 months.
  - (d) To charge an “empty homes premium” of 50% on long term empty properties making the total liability 150% after two years rather than 100% at present.
  - (e) To withdraw the exemption on properties where the mortgagee is in possession or reduce the discount to zero if the regulations allow for this making the mortgagee liable for the charge.
38. In deciding on the final option to select, the deliverability of the various aspects must be considered in the context of the impact on claimants and their ability to pay and / or to secure work to increase their income to pay. This can only be done after consideration of the outcomes of the consultation exercise and the provisional Local Government Financial Settlement for 2013/14 (which is expected in December 2012).

#### Overall analysis of current Council Tax Benefit claimants

39. The current profile of claimants shows that 49% are pensioners. This means that the impact on working age claimants to cope with the reduction in funding is going to be very significant. When factoring in growth, potential council tax increases and non-collection then the reduction in support on working age claimants would need to be in excess of 25%, in order to be cost neutral. If this approach was applied to the average level of support there would be an average cost to claimants of some £300 per annum.
40. Whereas the Council fully supports the drive to get people back to work, the ability to get work in the current economic conditions is constrained. The job availability on the Island is limited with low pay and seasonal jobs being significant elements. For those vacancies that do exist competition can sometimes be high.
41. The Island has relatively high levels of claimant unemployment. Employment growth is anticipated to be sluggish to 2013, reflecting contractions in the public sector (on which the Island’s economy is more dependent than the wider South East) and in manufacturing. Growth in business services is, however, expected to be quite buoyant and greater than elsewhere. Transport and communications and distribution are also forecasted to recover.
42. The Isle of Wight also has a history of low levels of job vacancies; over the past five years the number of job vacancies advertised with Job Centre Plus in a month has averaged 32.2 per 10,000 working age population, which compares unfavourably with Great Britain at 76.2 and the South East at 68.2. Although it is known that a large number of Island jobs are not always advertised through with Job Centre Plus and many seasonal jobs are filled by returning workers without advertisement, it is not anticipated that these jobs

would significantly improve the relative position of the Island in this regard. The low availability of employment opportunities is reinforced by the fact that the Island has a job density (ratio of total jobs to the total working age population) of 0.67 compared to a GB figure of 0.77.

43. The overall profile of current council tax benefit claimants at April 2012 was:
- 49% are pensioners;
  - 11% of total claimants (22% of working age claimants) are working-age vulnerable – some 1800 claims;
  - 60% of working age claimants are passported cases (on income support / job seekers allowances) where they have automatic entitlement to council tax benefit;
  - 73% of working age claimants are at or below the applicable amount set by Government as the estimate of the lowest amount of money per week to live on;
  - 85% of working age claimants are also in receipt of Housing Benefit;
  - 96% of working age claimants receive 100% support for their council tax;
  - There has been a 25% increase in the number of working age claimants from February 2009 to February 2012;
  - 52% of working age claimants have dependents
  - There are currently some 7,900 working age claimants;
  - Only 11% of working age claimants are 18-25 years of age with 36% over 45.
44. This means that a high proportion of claimants who are at or below the applicable amount could be required to pay an identifiable proportion of their income towards their council tax; most of whom pay nothing at all at present. This inevitably will generate a higher rate of non-collection than is normally the case, certainly in the first instance when it is introduced.
45. Currently our timetable for the recovery of outstanding council tax commences in early May of the relevant financial year in order that reminder notices issued in accordance with The Council Tax (Administration & Enforcement) Regulations 1992 are issued to those council taxpayers in default rather than paying late. This has proven to be successful in reducing the amount of contacts received from the public if payments are late rather than intentionally unpaid.
46. Depending on the local scheme implemented the reduction in support given to claimants of working age could be significant. The collection challenges are likely to be substantially different from normal council tax debt and our current processes would therefore need to change significantly. For the recovery of these debts the process will need to commence in April each financial year, to encourage instalments to be paid over the maximum period, maximising collection and to avoid hardship to those households which may struggle to pay.

47. Once cases have passed through recovery stages of reminders, summons and a liability order has been obtained at the Magistrates Court incurring costs of £80, the Council have contracted out the issuing of requests for information under Regulation 36, Council Tax (Administration & Enforcement) Regulations 1992, to Enforcement Agents to issue on our behalf thus realising savings on postage and resource. This process has been in place for several years. In the future to prevent the possibility of additional costs being incurred by Enforcement Agents, adding to the burden of claimants, it will be necessary for cases to be manually checked to establish if they are passported cases i.e. on income support or jobseekers allowance, to issue the request for information, monitor responses and possibly instigate attachment to benefits or attachment to earnings if those cases can be identified by specific reports.

#### Housing Benefit

48. Changes to housing benefit have seen the maximum level of this benefit being restricted to a four bedroom property, non-dependant deductions being increased from the 2010 levels by almost 55% (a further increase is due to be applied in 2013), ending of the £15 weekly Housing Benefit excess payments that some people could receive under Local Housing Allowance, and single under 35 year olds being restricted to the 'Shared Room Rate' of Local Housing Allowances currently at the rate of £68.50 per week (when previously the rate that applied may have been at the one bedroom self-contained level of £91.15 per week).
49. Further Housing Benefit reforms are due to be applied during April 2013, with the Social Housing Sector under-occupancy restrictions being applied by reducing the eligible rent for Housing Benefit by 14% where under-occupied by one bed and 25% if under occupied by two or more beds.
50. The benefit cap will be applied through the Housing Benefit payments for those claimants of working age, therefore capping combined benefit payments to £350 per week for single claimants and £500 per week for couples and lone parents.
51. With Universal Credits due to be introduced in October 2013, the various changes to Housing Benefits are due to be linked into the new Universal Credit assessments as a Housing Cost element. Universal Credits has been designed to make work pay by rewarding those that work and not making them worse off than being in receipt of out of work benefits. The tapers applied to Universal Credit are due to be at 65% (similar to those currently used within the Housing Benefit Assessment).
52. The reforms described above are designed to provide an improved incentive to encourage those in receipt of benefit into work whereby the ultimate loss of Universal Credit (compared with existing benefits) as earnings in theory rise, is less steep than currently.
53. It is, however, likely that the net effect of these changes, when combined with all of the other changes, is that not only will claimants face a shortfall with their mortgage or rental payments but that their benefit income from which to

make up any shortfall is reduced. The changes will therefore impact on claimants, their landlords and the Council.

54. The phased nature of the introduction of the changes to Housing Benefit means that it remains too early to offer a definitive view of the impact of the changes on the Island. It is however possible to offer an overview of some of the possible impacts, such as that landlords may consider or plan to cease letting to Housing Benefit tenants in the next 12 months or so. Conversely landlords may intend to continue letting to Housing Benefit tenants in the next 12 months or so.
55. Housing Benefit tenants will continue to offer a secure (if reduced) rental stream which is attractive to many landlords. The homelessness team will however have to remain vigilant and seek to respond to any significant reduction in the numbers of properties being let by landlords, which will bring the preventative approach to homelessness adopted by the Council into even sharper focus.
56. It is also possible that landlords may choose to reduce rents for tenants in exchange for direct payments or might consider doing so although there is no evidence of this on the Island at the moment. It is certainly the case that Social Landlords on the Island are currently reviewing business plans and their approach to rent arrears policy in anticipation of a potential increase in rent arrears and the potential need to take possession proceedings against tenants. Any increase in the number of evictions will have an impact on the Council in terms of increased arrivals at the desk of the homelessness team and therefore an increase in the cost (revenue) of providing temporary housing for applicants while cases are investigated.
57. Amongst claimants, the most likely response to any future gap between their Housing Benefit and the rent charged is cutting back on essential and non-essential budget items. It is anticipated that of the claimants, where working is an option, some will look for employment opportunity to make up any future shortfall. Others may look to move to less expensive accommodation but for many claimants because of factors such as the size of their family or the need for specialist or adapted accommodation, this will not be possible. Some tenants may attempt to negotiate lower rents with their landlord in exchange for direct payments; however the extent to which landlords might consider responding positively to such requests is currently unclear. The homelessness team is not aware of any evidence of this at the moment, although such an approach is being encouraged.
58. One scenario is that there will be a period of market adjustment, during which private rent levels will fall. This would require landlords to work with smaller margins and that the gap between benefit rates and rents charged will remain generally low or non-existent.
59. A second scenario is that there will be a 'ripple effect' of change as landlords become more acquainted with the new regime. They might for instance prioritise non-Housing Benefit tenants in their lettings, and reduce their involvement in the Housing Benefit market because of concerns about future

affordability for tenants. There is already some anecdotal evidence that this is happening on the Island and applicants looking for a solution to their housing issues in the private rented sector have to invest more time and effort into finding accommodation. It is this scenario which has the potential to have the greatest impact on the Council in terms of evictions and an increase in homelessness costs. Equally important is the potential impact that each eviction has on the resident / family involved and the knock-on implications which could be felt in Social Care as well as on the Strengthening Families agenda.

60. A third scenario is that many tenants will seek to adjust their budgeting arrangements in order to be able to remain in their home even if they are having to fund a greater shortfall between the rent charged and that covered by Housing Benefit. This kind of adaptation may be a temporary or permanent course of action and the ability of residents and families across the Island to do this will vary on a case by case basis.
61. These scenarios are not mutually exclusive and it is likely that a mixed picture will emerge across the Island over time.
62. In addition, it should be noted that it is not possible for the Council to protect claimants or landlords from external factors affecting their decision-making. The context within which their decision-making takes place includes not only the changing patterns of supply and demand in the private rental market and local housing markets generally (such as the potential barriers to entering owner-occupation or the supply of new social housing), but also developments in the wider national and international economy. This means that the ongoing focus on its core priorities of Housing and Homelessness, Regeneration and the Economy both remain a vital part of the Council's response to Welfare Reform.

#### Options for changing entitlement to Council Tax Support to deliver savings

63. In considering the development of a local Council Tax Support Scheme the starting point is the existing Council Tax Benefit Scheme. As set out earlier in this report there is limited ability for developing a whole new scheme at this stage due to the limited timescales and the system changes that would be required to design such a wholly new scheme. What most billing authorities are therefore doing is considering an overall reduction in entitlement by using the existing Council Tax Benefit Scheme as their starting point and then determining a maximum level of council tax that can be supported and changing some specific elements that are used in the current benefit calculation to arrive at the entitlement to support.
64. The impact of the potential changes would be felt differently depending upon individual circumstances and it is essential in considering each element that the Equalities Impact Assessment of each of them – along with the overall impact of them combined – is taken into account in making any decision. The first stage Equality Impact Assessment is set out in Appendix 4 to this report.

65. The general reduction in support (excluding pensioners) would be achieved by taking existing entitlement as calculated under the current benefit regulations and then reducing it by a certain percentage. This would retain all the elements of the existing scheme.
66. The budget options in the table at paragraph 30 include option 5 relating to reducing the overall percentage of support to between 75% and 85% of the existing entitlement, plus making changes to some of the specific elements of the way entitlement is calculated and introducing the proposed changes to discounts on second homes and empty properties. There are numerous variations of what could be changed but there are eight main specific elements of the existing benefit calculation that have been considered for potential change. These are summarised below and a more detailed explanation is set out in Appendix 2 to this report.

1) Second Adult Rebate

In general the Second Adult Rebate compensates the council taxpayer (claimant) for the loss of single person council tax discount caused by the presence of the 'second adult' in the property.

The current scheme can be difficult to understand and creates complexity with assessments known as a 'better buy' calculation where the claimant's income is means tested to determine which benefit provides the greater level of benefit entitlement.

It is proposed, therefore, to consider removing this element of the calculation.

2) Non-dependant deductions

A non-dependant is anyone who normally shares living accommodation with the claimant but who is not liable to pay council tax and therefore are not eligible to claim housing and council tax benefit because they do not have any formal liability.

Non-dependants are usually adult sons, daughters, other relatives or friends who live in the claimant's household on a non-commercial basis. Some claimants receive money from their non-dependants to pay towards household bills (i.e. pay keep), but instead of taking account of this as the claimant's income, a standard deduction from benefit entitlement is made instead.

As the available income in these households is generally higher it is proposed to consider increasing the deduction from support in respect of non-dependants by 50% and also introduce a deduction for those non-dependants that are in receipt of a passported benefit.



3) Capping entitlement to a Band D council tax level

Currently the maximum council tax liability is not restricted by the council tax band and therefore the cost of benefits for those claimants in the higher bands can be significantly more. It is proposed to consider setting the maximum council tax liability at a Band D level.

This means that all claims would be worked out using a maximum liability up to a Band D and would exclude paying council tax support above the Band D equivalent level of council tax liability for the property bands E, F G and H. This cannot be applied to pensioner claims but would be likely to affect couples, single claimants or families with children and potentially those living in larger properties because of adaptations for disabled facilities. Claimants may have to downsize and the potential impact to larger families with dependent children has to be considered where there is a housing need. There are other options that would cap the entitlement to different council tax bands.

4) Reducing the capital threshold for entitlement

Under the existing council tax benefit scheme, the capital of the claimant and any partner is taken into account when determining their entitlement to Council Tax Benefit. Capital includes any cash, current accounts, savings, stocks, shares, bonds or unit trusts, money held in trust, ISA, income bonds, premium bonds, national savings certificates or second properties, land or timeshare owned by the claimant.

Currently, if a claimant's capital is more than £16,000 (upper capital limit) the claimant is not entitled to benefit. For working age cases the first £6,000 (lower capital limit) of capital is ignored. The remainder up to £16,000 attracts a tariff income. There are a range of options that could be implemented to change these thresholds. These would however be difficult to apply and relatively easy for claimants to avoid.

It is proposed, therefore to consider not changing this element of the calculation at this time – however this is likely to be subject to review after the first full year of the scheme.

5) Reducing income disregards for child benefit

Since 2 November 2009 all child benefit income is fully disregarded for council tax benefit entitlement calculations. Prior to this date the income received from child benefit was included in the assessment for council tax benefit.

Two options for consideration could be; including all child benefit income within the calculation, or 50% of the child benefit is taken into account.

Child benefit will be included in the total benefit cap calculated income, but we await guidance on whether it will be counted as income within

Universal Credit. This would affect mostly working households with dependent children and could also impact on the Child Poverty agenda that needs to be considered as part of the Council's responsibility to vulnerable groups under the Child Poverty Act 2010.

As those with child benefit income would be subject to any overall reduction in support it is proposed to consider not changing the disregard, and the Council will await the guidance of how it is treated with regard to Universal Credit.

6) Reducing income disregards for other income

There is a range of other income that is disregarded for council tax benefit purposes from both earned and non-earned incomes. Only one of the earned income disregards can apply, but other income disregards can be applied where applicable.

It is proposed to consider not changing these, at this stage, as claimants will be the subject of any general reduction in support.

7) Increasing the taper for contributing income above the applicable amount

Once the total income amount has been calculated, it will be compared with the applicable amount, to determine whether the claimant's income is greater than the applicable amount. Where the income received is greater than the applicable amount, persons will receive a reduction to full benefit equivalent to 20% of the difference between their income and applicable amount on their net council tax liability.

The higher the taper the more disincentive there will be to increase income through work. Because of this it is proposed to consider leaving the taper unchanged, at this stage.

8) Protecting the working age vulnerable

The present Council Tax Benefit scheme provides a number of vulnerable protections on certain incomes and by awarding additional premiums for those with disabilities that may mean higher levels of disability related living expenses for some of the claimant households. One option is to remove these protections, another to continue with the same level of protection but apply the reduction in maximum entitlement to 75%-85% or continue with the same level of protection and not apply the 75%-85% reduction.

The Government stresses that the Equality Duty explicitly recognises that disabled people's needs may be different from those of non-disabled people. Public bodies should, therefore, take account of disabled people's needs when making decisions about policies or services. This might mean making reasonable adjustments, or in some

cases treating disabled people more favourably than non-disabled people, in order to meet their needs.

In particular, the Government stresses that local authorities should make sure that additional challenges faced by disabled people which may affect their income (and therefore capacity to pay council tax) are taken into account when determining their local scheme. For example, this might include recognising, in the design of the scheme, a limited ability to work or a likely higher level of disability-related living expenses.

In view of this, and the likely impact on claimants, it is proposed to consider protecting this group and not applying the overall reduction in support or any of the other changes to the way support is calculated.

67. The table below sets out the financial summary in relation to these eight areas:

| <b>Budget Option 6</b>   | Reduce Support to 75% of current       | Reduce Support to 80% of current | Reduce Support to 85% of current |
|--|--|----------------------------------|----------------------------------|
|  |  |                                  |                                  |
| Savings  | <u>£1,750k</u>                         | <u>£1,400k</u>                   | <u>£1,050k</u>                   |
|  |  |                                  |                                  |
| Overall % reduction required for working age claimants if there are no other changes | 25%                                    | 20%                              | 15%                              |
| <u>Specific Elements</u>   | <u>Projected saving if implemented</u> |                                  |                                  |
| 1.Second adult rebate  | £34k                                   | £33k                             | £31k                             |
| 2.(a) Increase non-dependent deductions for non-passported claimants                 | £13k                                   | £14k                             | £15k                             |
| 2.(b) Introduce non-dependents deductions for passported claimants                   | £35k                                   | £37k                             | £36k                             |
| 3.Restrict to Band D Council tax level   | £47k                                   | £52k                             | £55k                             |
| 4.Reduce capital threshold to £6k  | £56k                                   | £62k                             | £67k                             |
| 5.Reduce income disregards for child benefit by 50%                                  | £76k                                   | £82k                             | £89k                             |
| 6.Reducing income disregards for other income  | £172k                                  | £182k                            | £193k                            |

|   |         |         |         |
|---|---------|---------|---------|
| 7.Increase taper from 20% to 25%                      | £95k    | £109k   | £123k   |
| 8.Protect the working age vulnerable for all elements | (£440k) | (£360k) | (£270k) |

#### PROPOSED WAY FORWARD

68. To deliver anywhere near the savings required to meet the reduction in grant funding will require the entitlement based on council tax liability to be reduced from 100%; otherwise there will be a significant reduction in services provided to residents. It is proposed that this be to 75%, 80% or 85%.
69. No decision can be made until a full consultation exercise is undertaken and the potential impact and views and alternatives are taken into account. Because of the complexity of current benefit calculations there are innumerable options that could be pursued. If the consultation is based on too many options and variations it will be impossible to advise consultees on potential impacts and therefore the feedback and views will be less meaningful.
70. It is therefore proposed, in order to make the consultation more meaningful, that the Council indicates a preferred option based on the current profile of claimants, the potential impact and the financial constraints.
71. The consultation will include obtaining views on this preferred option as well as other changes. When the consultation has been completed the decision on the final scheme to be adopted will be made by Council at its meeting in January 2013 taking into consideration the outcome of the consultation, the Equality Impact Assessment as well as the updated grant funding and financial position.
72. This will enable the Council to consider what changes it needs to make to its preferred option and what can be reasonably done to mitigate against any impact identified through consultation.
73. It should be recognised that the final option agreed is likely to be different than the preferred option once the outcomes from the consultation and the updated financial position is known and considered.
74. A summary of the potential impact of the preferred option is set out in Appendix 1 to this report and examples of the impact on a range of scenarios is detailed in Appendix 2 to this report.
75. The preferred option being proposed is based on the following framework (and based on the 80% level of support model):

|  | Estimated Gross Financial Impact<br>(including Hampshire Police<br>Authority) |
|--|---|
| <b>Reduction in Support</b>                                      |   |
| Reduce maximum entitlement to 80% of council tax liability       | -£1,400k  |
| Protect working-age vulnerable from reduction                    | +£360k  |
| Remove second adult rebate                                       | -£33k   |
| Increase deductions non-dependent cases for non-passported cases | -£14k   |
| Introduce deductions for non-dependents for passported cases     | -£36k   |
| Restrict to Band D Council Tax level                             | -£52k   |
|  | £1,175k   |
| <b>Increase in Council Tax income</b>                            |   |
| Second homes removal of 10% discount and                         |   |
| Empty properties reduction in discounts                          | +£725k  |
| Total savings  | <b>£1,900k</b>  |
|  |   |
| Estimated loss of Subsidy grant                                  | <b>£1,900k*</b>   |
|  |   |
|  | <u>*Excludes non-collection</u>   |

76. As this would be a new scheme it is difficult to project actual levels of non-collection and potential write-offs although there are bound to be increased levels over that currently experienced. Any provision to be recovered by reducing support even further would add to the potential non-collection.
77. As 2013/14 will be very much a transitional year it is proposed that any non-collection / write offs are managed through the recovery process and where there are genuine issues of hardship these be managed appropriately through making arrangements with the council tax payer.
78. In previous years a council tax benefit reserve was held to smooth out variations related to benefit fraud cases, where benefit originally paid attracts a reduced subsidy of 40% but a 100% of monies recovered are retained and any under recovery of subsidy. At 31 March 2012 the Council held an overall credit balance on this reserve and it is proposed that the remaining balance at 31 March 2013 be used as a one-off provision against non-collection and write-offs in 2013/14.

## CONSULTATION

79. In coming to a decision on any local scheme to be implemented a full and comprehensive consultation exercise will need to be undertaken. This will need to include current claimants who would be directly impacted by the proposals but also council tax payers, interested parties (such as welfare

agencies / support groups and users of services who might be affected by the budgetary impact of any scheme chosen that results in increased council tax and / or service reductions). The Hampshire Police Authority and town and parish councils will also be consulted.

80. It is proposed that the consultation be undertaken for a 10 week period from 24 September to 30 November 2012.
81. The table below sets out the proposed methods of consultation and those to be consulted:-

| <u>Stakeholders</u>   | <u>Methodology</u>  |
|---|---|
| 1.Existing working age claimants  | Individual letters explaining proposals and likely impact<br>Online survey via questionnaire<br>Paper survey if requested |
| 2. Existing recipients of second homes discount and the second adult rebate (the latter except pensioners). | Individual letters explaining proposals and likely impact<br>Online survey via questionnaire<br>Paper survey if requested |
| 3.Existing pensionable age claimants, taxpayers and service users generally                                 | Online Survey via questionnaire<br>Paper survey if requested  |
| 4. Interested organisations and groups.   | Direct email contact  |

### **General Awareness**

|   |  |
|---|--|
| Provision of information and awareness raising of changes and proposals | <a href="http://www.iwight.com">www.iwight.com</a><br>Press releases<br>Advertisements in One Island magazine<br>Radio adverts<br>Face to face communication at customer service points<br>Information in libraries, children's centres and at Job Centre Plus<br>The Council's Facebook and Twitter sites<br>Shopping locations<br>Through parish council offices |
|---|--|

## **FINANCIAL / BUDGET IMPLICATIONS**

82. This report sets out a number of options in dealing with the introduction of a local Council Tax Support Scheme. Currently the cost of council tax benefits is met from a subsidy grant provided by the Government. Any additional cost to the Council will depend upon the local scheme that is agreed at Council in January 2013.

83. On the basis of current information from the Government, the difference between the estimated cost of local Council Tax Support and the new grant likely to be received could be some £1.9m. If there was no reduction in the level of Council Tax Support given compared to the existing Council Tax Benefit Scheme then the Council would need to find £1,707K with the £193k falling on the Hampshire Police Authority.
84. For the Council this would be equivalent to a 2.4% council tax increase. If this was added to the budgeted 2.5% it would give an increase of 4.9% which is likely to be well above the level regarded as “excessive” by Government.
85. If changes were made to the discount given on second homes and to empty properties, then additional council tax income would be generated to help offset the costs of any council tax support.
86. Without this it is, therefore, likely that any remaining cost after any reduction in support to claimants would need to be met from making reductions and savings in other Council services on top of savings that already have to be made. If the scheme was not changed in 2014/15 and future years then the cost would be recurring and likely to increase.
87. If the Council Tax Support is reduced to match the difference between the projected costs of the support given under the Council Tax Benefit Scheme and the total grant received then there is likely to be a major impact on existing and future council tax benefit / council tax support claimants with a potentially high rate of non-collection.
88. It is proposed that any non-collection / write-offs are met from the existing council tax benefit reserve, to meet any potential shortfall in this first transitional year.
89. The overall financial position and the financial impact of the local scheme will be reassessed following the outcomes of the consultation and changes that result and the provisional Local Government Finance Settlement which is expected in early December 2012.

## LEGAL IMPLICATIONS

90. The Council will need to set a lawful and balanced budget and council tax level for 2013/14 at the Council meeting on 27 February 2013. In developing any proposals the necessary equality impact assessments and consultation processes must be carried out and the outcomes considered in determining the final decision. The final decision on the local Council Tax Support Scheme will need to be made by the 31 January 2013 in advance of the budget setting meeting.
91. The Government published draft regulations on 16 July 2012. The draft Localising Support for Council Tax (Prescribed Requirements) Regulations sets out the mandatory elements of local schemes. This includes the provision to protect pensioners from any reductions in support. The draft

Localising Support for Council Tax (Default Schemes) Regulations set out the proposed default scheme in the event of a local scheme not being agreed.

92. In finally deciding what form the local Council Tax Support Scheme should take, the Council will need to take into account the Equality Impact Assessment of the options, what mitigating actions can be taken to reduce the impact, the results of the consultation exercise and the wider budget position and the potential impact on council taxpayers and users of services.

### PROPERTY IMPLICATIONS

93. There are no specific property implications of this report.

### EQUALITY AND DIVERSITY

94. The Council has to comply with Section 149 of the Equality Act 2010. This provides that decision makers must have due regard to the elimination of discrimination, victimisation and harassment, advancing equalities, and fostering good relations between different groups (race, disability, gender, age, sexual orientation, gender reassignment, religion/belief, pregnancy and maternity, and marriage/civil partnership). An Equality Impact Assessment will be completed in respect of relevant proposals as part of the decision making process to enable members to take into account and if necessary mitigate the impacts as part of the decision making process.
95. The first stage Equality Impact Assessment for the local council tax support scheme is attached at Appendix 4 to this report.

### SECTION 17 CRIME AND DISORDER ACT 1998

96. Section 17 of the Crime And Disorder Act 1998 (as amended by Police and Justice Act 2006) provides that: it shall be the duty of each authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all it reasonably can to prevent, crime, disorder, anti-social behaviour adversely affecting the environment, and substance misuse in its area.
97. As part of the development of any budget proposals the implications and impacts will be assessed in accordance with Section 17 requirements. There are no specific implications as a result of this report but the greater the reduction in council tax support increases the likelihood of fraud taking place.

### OPTIONS

98. The options considered in this report relate to the scheme itself, the budget threshold to be set and if there is a local scheme the elements that should be included .i.e.



### Scheme Options

- A) To develop a local scheme; or
- B) Wait and have the default scheme based on the existing council tax benefit scheme imposed.

### Budget Options

- 1) To meet the difference between the projected costs of council tax support given (based on the existing benefit scheme) and the total grant received by partly reducing the level of support to 75% of council tax liability and by the Council / Hampshire Police Authority meeting any remaining gap.
- 2) To meet the difference between the projected costs of council tax support given (based on the existing benefit scheme) and the total grant received by partly reducing the level of support to 80% of council tax liability and by the Council / Hampshire Police Authority meeting any remaining gap.
- 3) To meet the difference between the projected costs of council tax support given (based on the existing benefit scheme) and the total grant received by partly reducing the level of support to 85% of council tax liability and by the Council / Hampshire Police Authority meeting any remaining gap.
- 4) The Council and Hampshire Police Authority meet the difference between the projected costs of council tax support given (based on the existing benefit scheme) and the total grant received with no reduction in support.
- 5) To reduce the overall council tax support to between 75% and 85% of council tax liability plus make changes to specific elements of the way support is calculated and make changes to the Council Tax discount for second homes and empty properties.

### EVALUATION

- 99. There seems little advantage in not designing a local scheme and waiting for a default scheme to be imposed. A full consultation process would be still needed and the financial cost falling on the Council is likely to be unsustainable. Option A of the scheme options is therefore recommended.
- 100. Of the budget options, the option that would meet all the difference by the Council and Police Authority (option 4) is not felt to be financially sustainable.
- 101. Options 1, 2 and 3 are a balance between the budget impact on the Council with resultant impact on the level of council tax and services and the impact on claimants. These options reflect a general reduction to all non-pensioner claimants without changing any of the specific elements of calculation at all. It is felt that a general reduction in entitlement should be applied to generate any real savings.
- 102. Option 5, in addition to the general reduction, also provides for changing some specific elements of the calculation for assessing entitlement and to

meet some of the costs by removing the discount on second homes and reducing the discount on empty properties. It is felt that here are some specific elements of the existing benefit scheme that are felt to be sensible to change and that those claimants classified as working vulnerable should also be protected from the general reduction in support. To meet the cost of this and to avoid setting the reduction in support too high the removal of the 10% discount on second homes and the reduction in discount on empty properties is recommended.

103. On the eight specific elements of the current calculation of council tax benefit that could be changed (as highlighted in paragraph 66) it is not felt appropriate to change too many elements and make the local scheme too complex.
104. There are also issues with computer system changes. It is also felt that 2013/14 should be a transitional year and future and more comprehensive redesign of the scheme may be more appropriate for future years, based on experience in 2013/14.
105. To assist with meaningful consultation the preferred option at this stage is to agree a potential local scheme that is based on the general reduction to 80% of council tax, protecting the working-age vulnerable claimants and include the changes for second adult rebates, non-dependent deductions and capping at Band D council tax.
106. Any support given will reduce the council tax base and any shortfall between the support given and the new grant received will be shared between the Council and the Hampshire Police Authority as a Major Preceptor. Changes to the discount on second homes and on empty properties would increase council tax income and increase the council tax base to bridge the projected gap as set out in paragraph 75. It is therefore proposed that this aspect is also included in the preferred option to be consulted upon.
107. The overall preferred option for the Local Scheme being recommended is therefore:
  - a) To reduce the maximum entitlement to council tax support for working-age claimants to 80% of council tax liability.
  - b) To protect the working-age vulnerable by maintaining the existing method of calculating their support without applying the reduction in (a) above.
  - c) To remove the second adult rebate, except for pensioner claimants.
  - d) Increase deductions for passported non-dependant working-age claimants and introduce deductions for passported non-dependant claimants as set out below:

|   | <b>April<br/>2012</b> | <b>Proposed<br/>from 1 April<br/>2013</b> |
|---|-----------------------|---|
| <b>Non-dependant Deductions</b>   | <b>Per<br/>week</b>   | <b>Per week</b>                           |
| In receipt of state Pension Credit or in receipt of IS,<br>JSA (IB), or ESA(IR) | <b>Nil</b>            | <b>£3.30</b>                              |
| Aged 18 or over and in remunerative work  |                       |   |
| -gross income greater than £387.00 per week                                     | <b>£9.90</b>          | <b>£14.85</b>                             |
| -gross income not less than £310.00 but less than<br>£387.00 per week           | <b>£8.25</b>          | <b>£12.35</b>                             |
| -gross income not less than £180.00 but less than<br>£310.00 per week           | <b>£6.55</b>          | <b>£9.80</b>                              |
| -gross income less than £180.00 per week  | <b>£3.30</b>          | <b>£4.95</b>                              |
| Others aged 18 or over  | <b>£3.30</b>          | <b>£4.95</b>                              |

- e) Restrict the eligibility to entitlement, before applying the percentage at (a) above, to the maximum of a Band D council tax level.
- f) To reduce the council tax discount on second homes to 0% from 1 April 2013.
- g) To apply the following exemptions and discounts to empty properties from 1 April 2013 as set out below:
  - (i) Class A exemption for properties which are empty and undergoing repair or major structural alteration is replaced with 75% discount for the 12 month period instead of 100%.
  - (ii) Class C exemption for properties which remain unoccupied and substantially unfurnished is replaced with 100% discount for 3 months from the date the property becomes substantially unoccupied and unfurnished, followed by zero discount thereafter. This compares with the current position which is 100% for 6 months.
  - (iii) To charge an “empty homes premium” of 50% on long term empty properties making the total liability 150% after two years rather than 100% at present.

- (iv) To withdraw the exemption on properties where the mortgagee is in possession or reduce the discount to zero if the regulations allow for this making the mortgagee liable for the charge.

## RISK MANAGEMENT

108. The key risks relate to the limited timescale imposed by the Government and the ability to carry out necessary consultation and equality impact assessments. The financial risks relate to the uncertainty of the final regulations, the uncertainty of future growth in cases and eligibility and the potential impact on council tax collection rates.
109. The 2013/14 Budget Strategy is dependent upon the grant levels following the Local Government Finance Settlement which will not be known until early December 2012. The impact of having to meet additional unbudgeted costs of local council tax support on top of any further changes to grants is a risk.
110. A project group was set up earlier in the year to project manage the changes and make preparations for the new scheme. There has been considerable work undertaken on the proposals and a high level of liaison and interaction with other billing authorities has taken place.

## 111. RECOMMENDATIONS

### **THAT COUNCIL** considers:

- the options set out in the report and their potential impact as set out in Appendices 1, 2 and 3 to this report;
- the Stage 1 Equalities Impact Assessment set out in Appendix 4 to this report;
- the proposed consultation process set out in the this report;
- the council Tax reforms set out in Appendix 6 to this report;
- the draft Local Scheme set out in Appendix 5 to this report;
- the recommendations of the Cabinet.

And agree:

- (a) the overall consultation arrangements;
- (b) the preferred option that will form the basis of the consultation.

## 112. APPENDICES ATTACHED.

[Appendix 1](#): Summary of impact of options.

[Appendix 2](#): Potential changes to calculation of entitlement.

[Appendix 3](#): Examples of impact on claimants.

[Appendix 4](#): Equality Impact Assessment.

[Appendix 5](#): Draft Local Scheme based on recommended preferred option.

[Appendix 6](#): Council Tax Reforms.

[Appendix 7](#): Glossary of Terms.

[Appendix 8](#): Submission from the Council to the Government's consultation on the funding arrangements for the scheme.

113. BACKGROUND PAPERS

- Consultation papers from DCLG 17<sup>TH</sup> May 2012 on [statement of intent](#), [funding arrangements](#) and [work incentives](#).
- [Consultation on local precepting authorities council tax base 28 August 2012](#)
- [Budget Review Report to Cabinet and Council September 2012](#)
- [Department of Communities and Local Government consultation on Local Government Resource Review: Proposals for Business Rates Retention \(July 2011\).](#)

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